

CITY OF JACKSON, CALIFORNIA



**MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2008**

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**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

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To the Honorable Mayor and Members of the City Council
City of Jackson
Jackson, California

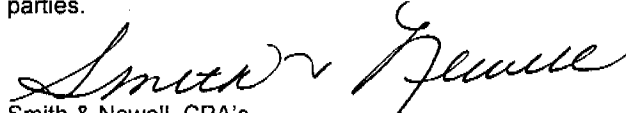
We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the City about matters that are important to the City's oversight role. We previously reported on internal control and compliance in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated December 9, 2008.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The following report summarized all our comments and suggestions including immaterial noncompliance, control deficiencies that are not considered significant deficiencies or material weaknesses and other matters involving internal control.

We will review the status of these comments during our next audit engagement. We have already discussed these findings and recommendations with the City management, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of management, others within the organization, the City Council and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's
Yuba City, California
December 9, 2008

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, California, for the year ended June 30, 2008, and have issued our report thereon dated December 9, 2008. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management and Smith & Newell, CPAs with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered City of Jackson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of Jackson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City of Jackson's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on City of Jackson's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Jackson's compliance with those requirements.

2. Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

3. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements are depreciation of capital assets and estimated cost of infrastructure assets.

Management's estimate of depreciation is based on estimated or actual historical cost and the useful lives of such assets. We evaluated the key factors and assumptions used to develop depreciation estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2008**

4. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

5. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

6. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

7. Management Representations

We have requested certain representations from management that are included in the management representation letter.

8. Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

9. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-01 STATEMENT ON AUDITING STANDARDS NO. 112

Condition

Currently, the County relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP).

Cause

Prior to issuance of SAS 112, the County was able to rely on the external auditors to assist with the financial statements and related notes without being subject to control deficiencies.

Criteria

In May 2006, a new auditing standard, Statement on Auditing Standard No. 112, Communicating Internal Control Related Matters Identified in an Audit (SAS 112), was issued. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be part of the County's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The County should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting principles. To carry out this responsibility, the County must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the financial records, retaining staff competent in financial reporting and related oversight roles, and adequate design of internal control over the preparation of the financial statements.

Effect of Condition

The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the entity's financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to ensure its financial statements are in accordance with GAAP, the County is considering the external auditors a part of its internal controls over the preparation of the financial statements.

Recommendation

The County may consider the following possible actions:

1. Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.
2. Hire an external accountant to confirm that the financial statements and related disclosures are in accordance with GAAP.
3. Take no action. The County may find that the costs outweigh the benefits to adhere to this standard. No action will continue to result in a significant deficiency in the County's internal controls over the preparation of the financial statements.

Corrective Action Plan

Statement on Auditing Standards No. 112 (SAS 112) is a new requirement that is presently unattainable for City staff. The City has utilized assistance from its auditing firm to prepare the financial statements, however, the number of journal entry modifications to the information prepared by the City has declined significantly over the past few years. City staff does not have the technical accounting knowledge to independently prepare the complete financial statement, nor the ability or time to complete the extensive "Most Frequent Disclosures" checklist. Staff will consult with its auditor regarding possible actions to meet SAS 112 requirements in the future.

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-02 BUDGET

Condition

We noted that for the year ended June 30, 2008, the City did not legally adopt a budget for the First Time Homebuyers fund.

Cause

The City did not adopt a budget for a grant special revenue fund.

Criteria

Generally accepted accounting principles require that all special revenue funds have budgets legally adopted.

Effect of Condition

One major special revenue fund did not have a legally adopted budget.

Recommendation

We recommend that all special revenue funds have legally adopted budgets.

Corrective Action Plan

The funds in question were for the 06 First Time Homebuyer Program Grant. In the future, the City will develop and adopt budgets for any future special revenue funds. The City has received notification of award for an 08 First Time Homebuyer Program Grant and the budget will be amended to reflect this award upon execution of the Standard Agreement with the State.

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR COMMENTS - SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2008**

08-SA-01 DISBURSEMENT OF FUNDS

Name: HOME INVESTMENT PARTNERSHIPS PROGRAM
CFDA #: 14.239
Federal Grantor: Department of Housing and Urban Development
Pass Through Entity: Department of Housing and Community Development
Award No.: 06-HOME-2372
Year: June 30, 2008

Condition

During our testing of the HOME program receipts, we noted three instances when program activity delivery funds were disbursed to the contractor by the City after the 15 day clock had expired.

Cause

City personnel did not monitor the payment of HOME program funds to ensure that funds were expended within 15 days of the date the funds were wired from the Federal Treasury.

Criteria

Per the State of California Department of Housing and Community Development Contract Management Manual, it is the responsibility of the HOME contractor to ensure that HOME funds are expended and paid out of the HOME contractor's local account within 15 days from the date that the funds are wired from the Federal Treasury. The wire date appears as the 15 day clock date on the remittance advice received from the State.

Effect of Condition

HOME funds were not expended within the required time frame as established by the State of California Department of Housing and Community Development Contract Management Manual and HOME program standard agreement.

Questioned Cost

Although the 15 day clock had expired, program activity funds were disbursed for eligible project costs. The total disbursements issued after the 15 day clock had expired were \$23,953.

Recommendation

We recommend that the expenditure of HOME funds be monitored closely to ensure that expenditures are made within the required time frame as established by the State of California Department of Housing and Community Development Contract Management Manual and the HOME program standard agreement. We further recommend that in the rare event that a payment may not be made prior to the expiration of the 15 day clock that the Town contact the State of California Department of Housing and Community Development HOME program staff and request an extension of time to make the payment.

Corrective Action Plan

Home Grant Funds will be monitored more closely to insure that all funds received are disbursed within the required 15-day clock period. Requests for disbursement of funds will be processed for payment at the time a drawdown request is submitted to the State of California Department of Housing and Community Development.

**CITY OF JACKSON, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-01	<p>DISBURSEMENT OF FUNDS</p> <p>Recommendation</p> <p>We recommend that the City implement a program to monitor HOME program funds to ensure that funds received are disbursed within the required time period, this includes loans, program activity and program administration.</p> <p>Status</p> <p>Not Implemented</p>
07-02	<p>RECONCILIATION OF FLEX SPENDING ACCOUNT</p> <p>Recommendation</p> <p>We recommend that the flexible spending liability account be reconciled to the account administrator's report.</p> <p>Status</p> <p>Implemented</p>
07-03	<p>BUDGET</p> <p>Recommendation</p> <p>We recommend that all special revenue funds have legally adopted budgets.</p> <p>Status</p> <p>In Progress</p>

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